



## The small company specialists

# COMPANY INFORMATION

**Stadium Group PLC (LSE:SDM)**

Info sheet compiled March 2007

**Company Eye Ranking**

**29/50**

### EDITOR'S NOTE

Stadium Group PLC offers high quality Electronic Manufacturing Services from its major sites in Hartlepool, UK and South East China.

Dedicated Engineering teams provide comprehensive design and build to print support services to world wide customers for the manufacture of OEM products and electronic sub-assemblies at globally competitive prices.

The Group has continued to invest heavily in its operations in Asia, enabling it to compete successfully in increasingly price-sensitive global markets. This has attracted an internationally

recognised customer base, many of whom are household names.

The company operates in a popular area of outsourcing and are well established in China.

It is our opinion that the company is being directed sensibly and that the continued expansion of the business shows that the management is positive about the future.

However we believe that the company will not head forward quickly enough to justify the high PE ratio and would wait for news before an investment is made.

### 1 YEAR CHART



### FUNDAMENTALS

Company Name	Stadium Group PLC
Current Price	66
Status	AIM
Market Cap	18.73 m.
Shares in Issue	28.38 m.
Price-to-Book Ratio	2.4
Activities	supplies electronic manufacturing services
Sector	Electronic & Electrical Equipment
Corporate advisor	Brewin Dolphin Securities
Registrar	Capita Registrars

### HISTORY

1911 Company founded in North London as an importer of cycle accessories.

1930's Early pioneer of plastic injection moulding.

1970's Diversified into automotive aftermarket accessories.

1985 Relocated principle moulding plant to Hartlepool in N.E. England and began fledgling Electronic Manufacturing Services operation.

1989 Reorganised management structure and entered phase of high growth.

1991 Acquisition of Keland Electronics Limited.

1996 Flotation on London Stock Exchange.

1998 Acquisition of Beales Hunter Plc.

2000 Acquisition of Arlec Power International (Now Stadium Asia)

2001 Strategic review identifies focus on development of Electronic Manufacturing Services as core activity and disposal programme announced

### THE BUSINESS

Stadium Group PLC is a leading supplier of superior and distinctive Electronic Manufacturing Services to select original equipment manufacturers at a globally competitive cost.

The Company has manufacturing plants in the UK and China, supported by commercial, design and supply chain infrastructure in the UK and Hong Kong. Stadium Group also has sales representation in France, Canada, the US and Australia.



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### ACTIVITIES

#### Electronics division

Stadium Electronics division provides a complete turnkey contract manufacturing service from design to delivery. The group has facilities across the UK and in the Far East.

Design is key to the success of any project - and Stadium's experience covers the whole of product design, from customer concept through to re-engineering existing assemblies to make them cost effective.

In particular, design and manufacturing expertise has been gained in appliance and power tools control, battery charging, remote infrared and radio frequency control equipment, and ballasts for fluorescent luminaries and low energy lamps.

Main line assembly facilities in the UK include automatic conventional and SMD printed circuit population, line dedicated flow solder and whole product assembly and test.

The operation is supported by in-house component manufacture of printed circuit boards, coils, transformers, lead assemblies, plastic injection mould tools and mouldings.

The Far East Facilities provide Stadium with design, manufacture and distribution of power supplies, transformers and battery chargers. The Head Office is in Hong Kong with manufacturing plant in Guangdong Province in the People's Republic of China, and sales and design offices in the UK and France.

The Group's exceptional range of skills and capabilities combine to offer the customer cost effective manufacturing solutions based on worldwide material procurement and production on

state-of-the-art automatic and test equipment.

Stadium's expertise is exemplified by its being a supplier to world class manufacturing organisations like Black & Decker, Caradon Mira, Sylvania Lighting and General Domestic Appliances.

#### Other Divisions

##### Quest Consumer Products

Quest, an ISO9001 company and supplier to blue chip companies with EDI and JIT capability, has over 30 years of experience in the design, manufacture and distribution of nursery products including feeding, bathtime, safety, toys and baby care, with licenses for Disney, Warner Brothers, Beatrix Potter and Miffy. Based in 250,000sq ft premises in North London with in-house injection and blow moulding facility, assembly operations including printing and packaging.

##### Stadium Building Products

Stadium Ventilation is the UK market leader for the supply of ventilation products for use with heating appliances. The Division pioneered the introduction of ventilators that could be fitted using a core drill, saving time and money on installation. The Company is the producers of the popular "Black Hole" ventilation range. Its products are widely specified and used by British Gas, meeting the rigorous standards set by the appropriate Building Regulations and British Standards. In addition to its ventilation range, The Company also supply a wide range of roofing and general building products.

### LIST CLIENTS

Stadium Group PLC has an enviable list of blue chip clients: Black & Decker, Caradon Mira, Sylvania Lighting,

General Domestic Appliances, Disney, Warner Brothers, Beatrix Potter, Miffy, British Gas.

### ROLLING EPS



### P/E RATIO





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### FINANCIAL HIGHLIGHTS

\* Turnover increased by 6% to £38.55m (2005: £36.52m), with similar rates of growth across both Electronics and Plastics, and both in Asia and the UK.

\* Operating profit reduced by 12% to £2.28m (2005: £2.60m). This was a reflection of the more challenging trading conditions prevailing for much of the year, and especially the first half. In particular, material, energy and operating costs increased sharply, leading to pressure on margins until their effect could be fully reflected in selling prices.

\* Profit before taxation decreased by 11% to £2.35m

(2005: £2.64m), or by 17% to £2.16m (2005: £2.60m) before adjusting for exceptional gain and goodwill amortisation. The exceptional gain related to the sale of freehold property in Hong Kong arising on the relocation of Stadium Asia office premises amounting to £0.34m (2005: sale of surplus UK freehold property of £0.33m).

\* Reported earnings per share were 7.0 pence, a decrease of 8% on last year (2005: 7.6 pence). Earnings before exceptional gains and goodwill amortisation were 6.3 pence (2005: 7.6 pence).

### OUTLOOK

Stadium Group PLC principal objective is to deliver sustained growth in earnings by developing the scale and range of services offered by Stadium Asia, whilst maintaining a flexible and responsive manufacturing capability in the UK. Its underlying cost base remains globally competitive, and The Company continue to pursue a number of significant market opportunities

to grow both organically and by acquisition. Stadium Group PLC in a strong position to withstand the commercial pressures which are evident in a climate of increasing commodity and operating costs and The Company continue to take a cautious view of growth prospects for 2007.

### DIRECTORS

**Nick Brayshaw, Non-Executive Chairman**, Aged 50 was appointed as a Non-executive Director in 2005. He is an independent member of the Business and Innovation Group Board of the Department of Trade and Industry, and non-executive Chairman UK manufacturing, Barclays Bank plc. He is also chairman of the CBI Manufacturing Council.

**Nigel Rogers, Chief Executive**, is a Chartered Accountant. After qualifying at the age of 22, he joined Price Waterhouse and for the next eight years worked for the company in London, the Cayman Islands and Oman. In 1991, he joined the Formica Corporation of the USA responsible for business development in Europe.

Nigel joined Stadium in 1993 on being appointed Group Finance Director. He played a leading role in the flotation of the company in 1996 and in 1998 was promoted to Managing Director of the Electronics Division.

He became Chief Executive in March 2001

**Kamal Verma, MD Electronics**, joined Stadium in 1985. Was appointed Managing Director of the Electronics division in 1989. Following the acquisition of Beales Hunter in August 1998 he focused on the integration of these businesses into the Group, and became Managing Director of the Arlec Power businesses acquired in April 2000.

**Ken Leung, MD Stadium Asia**, has been with Stadium since the acquisition of the Arlec Power business in April 2000. Ken is a Director of the Institute of Industrial Engineers (Hong Kong) Limited.

**Chris Gill – Senior Independent Non-Executive Director** Aged 43, appointed at the AGM on 20 April 2006. He is a Chartered Accountant and was Finance Director and Company Secretary of Domnick Hunter group plc. He is also a member of the North of England Industrial Development Board.

### DIVIDEND

The Board proposes a final dividend of 2.45 pence per share (2005: 2.4 pence) to be paid on 8 May 2007 to shareholders on the register on 13 April 2007. This brings the total dividends for the year to

3.6 pence per share, an increase of 3% over the prior year (3.5 pence per share), which is covered by earnings 1.9 times (2005: 2.2 times).



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## SHAREHOLDINGS

	Number	%
Gartmore Investment Limited	3,657,397	12.7
AXA	3,404,500	11.82
Barclays PLC	1,446,114	5.02

	Number	%
Kam Verma	393,637	1.37
Nigel Rogers	209,055	0.73
Ken Leung	240,400	0.84
Chris Gill	20,000	0.07

## FINANCIAL HISTORY

### Profit and loss account for year ended 31<sup>st</sup> December 2006

£000	Year ended 31st Dec 2006	Year ended 31st Dec 2005
Turnover - continuing operations	38,552	36,515
Cost of sales	(30,059)	(27,684)
Gross profit	8,493	8,831
Net operating expenses before exceptional items and goodwill	(6,070)	(5,937)
Exceptional operating expenses	-	(161)
Goodwill amortisation	(148)	(132)
Net operating expenses	(6,218)	(6,230)
Operating profit - continuing operations	2,275	2,601
Profit on sale of fixed assets	340	330
Interest payable	(250)	(144)
Other finance costs	(12)	(150)
Profit on ordinary activities before taxation	2,353	2,637
Taxation	(341)	(482)
Profit for the financial year	2,012	2,155
Earnings per share Basic	7.0p	7.6p
Earnings per share Diluted	7.1p	7.5p
Profit for the financial year	2,012	2,155
Movements on foreign exchange	(885)	418
Actuarial losses (net of deferred tax)	(298)	(331)
Total recognised gains and losses	829	2,242

### Balance Sheet as at 31<sup>st</sup> December 2006

£000	As at 31st December 2006	As at 31st December 2005
Intangible assets	872	537
Tangible assets	10,102	9,832
Fixed assets	10,974	10,369
Stocks	5,872	5,943
Debtors due within one year	7,571	6,624
Cash	296	236
Current assets	13,739	12,803
Bank overdrafts	(1,434)	(1,758)
Creditors	(8,343)	(8,688)
Creditors: amounts falling due within one year	(9,777)	(10,446)
Net current assets	3,962	2,357
Total assets less current liabilities	14,936	12,726
Creditors: amounts falling due after more than one year	(2,713)	-
Provisions for liabilities and charges	-	(28)
Net assets excluding net pension liability	12,223	12,698
Net pension liability	(4,449)	(4,858)
Net assets	7,774	7,840
Capital and reserves	-	-
Called up equity share capital	1,440	1,432
Share premium account	4,233	4,184
Capital redemption reserve	88	88
Profit and loss account	2,013	2,136
Equity shareholders' funds	7,774	7,840
Bank borrowings (net)	4,383	2,064
Gearing	56.4%	26.3%

## RISK FACTORS

In addition to the other relevant information, the following specific factors should be considered carefully when evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. Before making an investment decision, prospective Investors should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the

acquisition of shares and other securities. A prospective Investor should consider carefully whether an investment in the Company is suitable for him/her in the light of his/her personal circumstances and the financial resources available to him/her. There are various risk and other factors associated with an investment of the type described in this document. In particular:



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The value of an investment in the Company is largely dependent upon the expertise of the Directors and their ability to identify and acquire or invest in suitable companies or businesses. There can be no certainty that the Company will be able to identify suitable acquisition targets or complete the purchase of any identified targets at a price the Directors consider acceptable. In the event of an aborted

acquisition it is likely that resources may have been expended on investigative work and due diligence, which cannot be recovered. The acquisition of other businesses can involve significant commercial and financial risks and there can be no certainty that any acquired business will not have a material adverse effect on the operations, results or financial position of the Company.

## CONTACT

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Hartlepool  
TS25 2BQ  
United Kingdom

## RANKING

	Ranking out of 50 (50 being highest)
<b>Business model - competitive advantage</b>	
Competition	30
Customers	27
Low cost	25
Management	
- corporate governance	20
- quality	35
- shareholding	30
Product	27
Sector	37
<b>Financial evaluation</b>	
Early and profitable exit potential	30
Financial strength	
- cash flow	28
- conservative accounting	
- need for funding	
Growth at a reasonable price	30
Risk	29
<b>Overall average rating</b>	<b>29</b>



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### FURTHER INFORMATION ABOUT THE RANKING

#### Competitive advantage

Companies are assessed according to their business model and how this translates into strong and sustainable competitive advantage. This can only be achieved with low cost activities and doing something different from the competition. This 'differentiation' must add value to the customer who is then prepared to pay a premium price. The differentiation is most obvious in the product but it can exist anywhere in the company's

value chain of activities, such as easy payment terms, convenient locations, superior management, and quality of suppliers. Companies that do not achieve competitive advantage because they have the same costs and/or do the same as the competition are marooned in a profitless zone. They helplessly try to compete with the one weapon left open to them, which is the disaster of cutting prices and typically leads to similar retaliation by competitors, with disastrous results.

### THE FOLLOWING ELABORATES ON THE RANKING CRITERIA

#### Competition

How intense is the competition and are there barriers to entry?

Services tend to be more protected than products from international competition. Does the sector ride the tailwind of multi-year mega trends? Is the business well positioned in the current stage of the economic cycle? What is its resistance to a recession?

#### Customers

Is the company controlling its customers and therefore its revenue streams? Are customers glued to the company and providing valuable and reliable recurring revenue or are they one-off, or 'transactional', providing shaky revenue? The company should ideally have weak and numerous customers.

#### Profitable exit potential

What is the potential for selling the share profitably? This is more applicable to pre-flotation investments.

#### Low costs

Has the company achieved low cost activities thus allowing more of the top line revenue to trickle down to the profit line?

#### Financial strength

Does the company have strong cash flow, the lifeblood of any business? Is the accounting conservative or is there 'accounting for growth'? Does it need more funding? Is the profit margin healthy and at least equal to its sector? What has been the track record in the growth rate of profits?

#### Management

Is there good corporate governance? What is the quality of management, as this is crucial to any business? Are the directors' shareholdings significant but not so large that they control the company?

#### Growth at a reasonable price

Does the share offer growth at a reasonable price? This is commonly measured using the PEG. This is the price earnings ratio (PE) divided by the forecast growth rate in earnings per share (EPS). The lower the PEG the better and under 1.0 is considered good for a blue chip company and under 0.6 for a small growth company.

#### Product

Is the product different from the competition and adds value to the customer? Are there threatening substitutes? Does it have a powerful brand?

#### Risk

What is the risk rating of the share due to factors such as new markets, its business model and strategies?

#### Sector

Is the company in an attractive sector that is profitable and adds value?

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